

# Management Accounting Evolution (Appendix 1)



# National Award

for Management Accounting (NAfMA) 2011

## MANAGEMENT ACCOUNTING DEFINITION

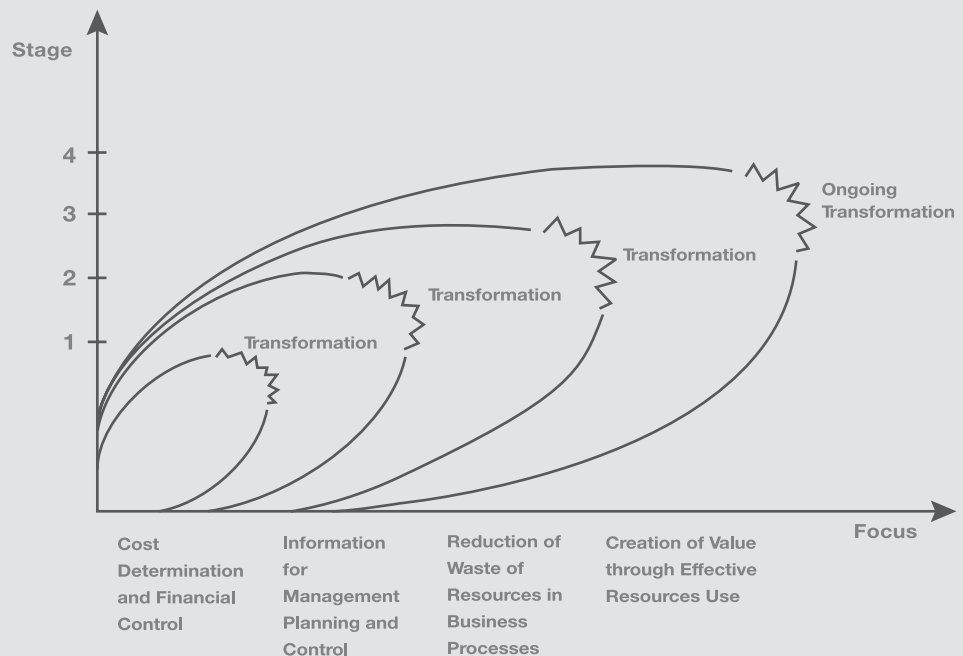
Management Accounting may be defined as the process of identification, measurement, accumulation, analysis, preparation, interpretation, and communication of information (both financial and operating) used by management to plan, evaluate and control within an organisation and to assure use of and accountability for its resources.

Management Accounting, therefore, is an integral part of the management process. It provides information essential for

- controlling the current activities of an organisation;
- planning its future strategies, tactics and operations;
- optimising the use of its resources;
- measuring and evaluating performance;
- reducing subjectivity in the decision making process; and
- improving internal and external communication.

## MANAGEMENT ACCOUNTING EVOLUTION

The following diagram, as extracted from the International Management Accounting Practice Statement (IMAPS 1) – Management Accounting Concepts of the International Federation of Accountants (IFAC) illustrates the four evolutionary stages of management accounting:





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MANAGEMENT ACCOUNTING EVOLUTION *continued*

**Stage 1** - Prior to 1950, the focus was on cost determination and financial control. Hence, the main source of data was from financial statements which include Income Statement, Balance Sheet and Cash Flow statement. The use of methods such as Ratio Analysis, Financial Statement Analysis, Budgeting and other cost accounting technologies were very popular.

**Stage 2** - 1950 to 1965, the focus had shifted to the provision of information for management planning and control. The aim then was to enable the management group to plan, control and take the best course of actions in their decision making processes. The use of management accounting techniques which could support decision analysis and responsibility accounting was introduced. Hence, the introduction of traditional methods such as Standard Costing, Cost-Volume-Profit (CVP), Break-Even Analysis, Transfer Pricing and Performance Measurement were accordingly increased during these periods.

**Stage 3** - 1965 to 1985, attention was focused on the reduction of waste in resources used in business processes. Initially, this was made possible through the elimination of "non-value-added activities". Then, the use of mathematical formulas were popularised by some authors. Effectively, management accounting techniques used during these periods include Total Quality Management (TQM), Economic Order Quantity (EOQ model), Inventory evaluation models such as Last In First Out (LIFO), First In First Out (FIFO), Management Resource Planning (MRP) and Multiple Regression.

**Stage 4** - 1985 to 1995, attention shifted to the generation or creation of value through the effective use of resources and technologies which examine the drivers of customer value, shareholder value and organisational innovation. The introduction of "relatively modern" management accounting methods such as Just-In-Time (JIT), Target Costing, Balanced Scorecard, Value Chain Analysis and Strategic Management Accounting are quite predominant during these periods.

**Post 1995** - Will include reference to Strategic Processes and there will be an emphasis on "value at risk" included in the processes.